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TAGS: EFIN JO
SUBJECT: JORDAN PREPARES A TOUGH BUDGET FOR 2006

Classified By: Ambassador David Hale, Reasons 1.4 (a), (b) and (d)

¶1. (C) SUMMARY: Jordan's revised 2006 budget goes a long way to getting the country's fiscal house in order. The GOJ will continue to cut fuel subsidies, will base its budget on an estimate of $60/barrel oil, and will assume only guaranteed foreign assistance. The budget of Finance Minister Adel Kodah will bring down the deficit from 16.1% of GDP in 2005 to 7.5% in 2006. Despite the bombings of November 9, Kodah is determined to go ahead with this tight budget. It may well be time to lobby again reluctant Paris Club members regarding Jordan's request to raise its debt swap ceiling and to urge Gulf states to renew their support to Jordan. END SUMMARY.

¶2. (C) On November 7, Jordan's Finance Minister Adel Kodah provided the Ambassador with details of a revised budget for ¶2006. The budget directly addresses many of the fiscal challenges the GOJ must overcome to restore its fiscal stability. First, the government will base the 2006 budget on an estimated price of $60/barrel of oil, up from $42/barrel in the 2005 budget. It projects slower growth in real GDP of 5-6% for 2006, down from what should be real GDP growth of over 7% in 2005.

¶3. (C) Under the terms of the revised 2006 budget, the government will make difficult choices to hold the line on spending. There will be no increases in government salaries and pensions for civil servants and the military. The government will continue its politically-difficult cuts to fuel product subsidies, raising product prices in March 2006, September 2006 and, in March 2007, removing the last of the subsidies. (NOTE: These fuel subsidies will cost the government 310 million Jordanian dinars ($434 million) in 2005; that figure will fall to JD 124 million ($173.6 million) in 2006. END NOTE). The government will then fully liberalize the fuel market in 2008. In addition, subsidies for commodities (largely foodstuffs) and independent GOJ agencies (those with their own sources of revenue such as the Jordan Investment Board) will be cut by 10%.

¶4. (C) In 2005, the government included expected foreign aid in its budget, relying on what it hoped it would be getting from several Gulf countries. When much of this assistance did not materialize, the 2005 budget, already struggling under soaring oil prices, was hit hard. The 2006 budget, by contrast, will include only foreign aid of which the government is reasonably confident, largely from the U.S., European Union and Japan.

¶5. (C) According to Kodah, all of these steps will bring down the projected deficit substantially. The government will register a deficit, before including foreign aid, of 16.1% of GDP in 2005. The revised budget for 2006 will bring this down to a deficit of 7.5% of GDP for 2006. When aid is included, this revised budget reduces the deficit for 2006 down from 5.6% to 5.1% of GDP.

¶6. (C) COMMENT: The revised 2006 budget is another in the series of the GOJ's politically difficult steps in restoring its fiscal health. Further lowering the fuel product subsidies and freezing government and military salaries and pensions will not be popular. The events of November 9 will undoubtedly add to government costs in enhancing security throughout the country and particularly at the borders. From post's perspective, it may well be time to support Jordan's request to raise its debt swap ceiling under the Paris Club once again and to lobby the members who have resisted the request. It is also time to renew our earlier messages to Saudi Arabia, Kuwait and the UAE calling for them to reconsider their aid programs to Jordan (now only Saudi Arabia provides a reduced level of assistance). Our understanding is that Gulf States were waiting for Jordan to make difficult fiscal choices, including cutting fuel subsidies. Jordan has now done that. It is now time to remind these countries of the importance a stable Jordan brings to this region, especially against the backdrop of the November 9 attacks.
HALE